by Louis J. Paradiso ☆

The Recent Pattern of Consumption

CONSUMER buying reached a peak rate in the third quarter of 1953, and has since declined only slightly in total. The comparative strength of consumer purchasing has been a sustaining market factor, but variations among commodity and service purchasing have had important consequences on business sales and on employment and income. Consumers take nearly two-thirds of the total output of goods and services, and the intensity of their demand is an important influence on the course of total business activity.

From the point of view of business firms, major interest centers in the volume and shifts in consumer purchases by lines. From the point of view of general business analysis, interest focuses on the trend of purchasing power and its use. This article is concerned with analyses bearing on both aspects.

Recent purchases of goods

The developments in consumer demand in the past year may be characterized by: (1) a leveling off in total consumption expenditures not far from the high reached in the latter part of 1953 after a period of sustained advance; and (2) a shift in purchases among major types of goods and services.

Total personal consumption expenditures for goods and services reached an annual rate of $231 billion in the third quarter of 1953. A small drop of $1 billion occurred in the fourth quarter, and preliminary indications are that this rate was maintained in the first quarter of 1954. Purchasing power, as measured by personal disposable income, also showed little change after the third quarter of last year. The cut in personal income tax rates which went into effect on January 1, 1954, contributed to the maintenance of this buying power which so far in 1954 is higher than a year ago, though off slightly from the mid-1953 high point.

Mixed trends in the pattern of buying within a comparatively stable total have had important effects on total production and employment. The following table shows the changes in major categories of consumer purchases from the first quarter 1953 to the first quarter 1954, computed from preliminary estimates of recent buying.

From the third quarter of 1953 to the first quarter of 1954, consumer buying of goods dropped about 2 percent.[1] This was partly offset by a rise in expenditures for services, of which about half is accounted for by the increase in housing. The decline in the purchases of durable goods was quite pronounced, amounting to about 7 percent during this period, most of which occurred in passenger automobiles and parts. In contrast, purchases of nondurables declined very little.

The divergence in the movement of goods and services had an important impact, since a given change in expenditures for services has a much smaller effect on employment and production than an equal change in purchases of goods. This differential effect partly accounts for the more pronounced declines in the consumer goods industries than is apparent from the small decline in total consumption. The appreciable drop in goods purchased resulted in unfavorable inventory-sales ratios in many lines and the industries affected curtailed their purchases of materials and reduced production in an attempt to curtail stocks.

Table 1.—Income and Consumption, Selected Periods

[Billions of dollars, seasonally adjusted at annual rates]

	1952	1953	1953	Change—first quarter 1954 from: 1953	1952
	I	I	III	I	I
Disposable income	228.7	245.4	249.8	4	21
Total personal consumption expenditures	212.7	227.7	231.0	2	16
Goods	142.3	151.4	151.7	−3	5
Durables	25.0	30.2	30.4	−2	3
Autos and parts	9.9	13.4	13.3	−2	2
Nondurables	117.2	121.2	121.3	−1	3
Food, clothing and shoes	92.0	95.1	94.4	−1	2
Services	70.6	76.3	79.3	5	11
Housing	21.2	23.3	24.4	2	4

Source: U. S. Department of Commerce, Office of Business Economics.

Production was affected more by the decline in Federal government purchases and by the lowered business purchasing to adjust inventories than by the change in consumer buying. Many firms built up inventories to the point where in mid-1953, with a general easing of demand pressures in the economy, they appeared high in relation to current and anticipated demand. Manufacturing and trade stocks were reduced primarily in the durable goods sectors, although some liquidation also occurred in nondurable lines even though here inventory-sales ratios were not particularly high.

Personal saving maintained

The recent parallel movement between personal consumption and income has been accompanied by the maintenance of the volume of personal saving at about the rate of the preceding 3 years. In this period, the ratio of personal saving to disposable personal income has been higher than the average of the earlier postwar years and of the prewar years. Correspondingly, the ratio of spending to income has been lower.

1. It may be noted that the decline in seasonally adjusted retail sales from third quarter 1953 to first quarter 1954 was 3 percent. The decline in consumer purchases of goods of 2 percent is consistent with the retail sales movement. Part of the autos sold by retailers are for business use and most of the sales of the building materials, hardware and farm implement dealers are bought for other than personal consumption. These groups have shown more pronounced declines than the other major kinds of retail businesses.

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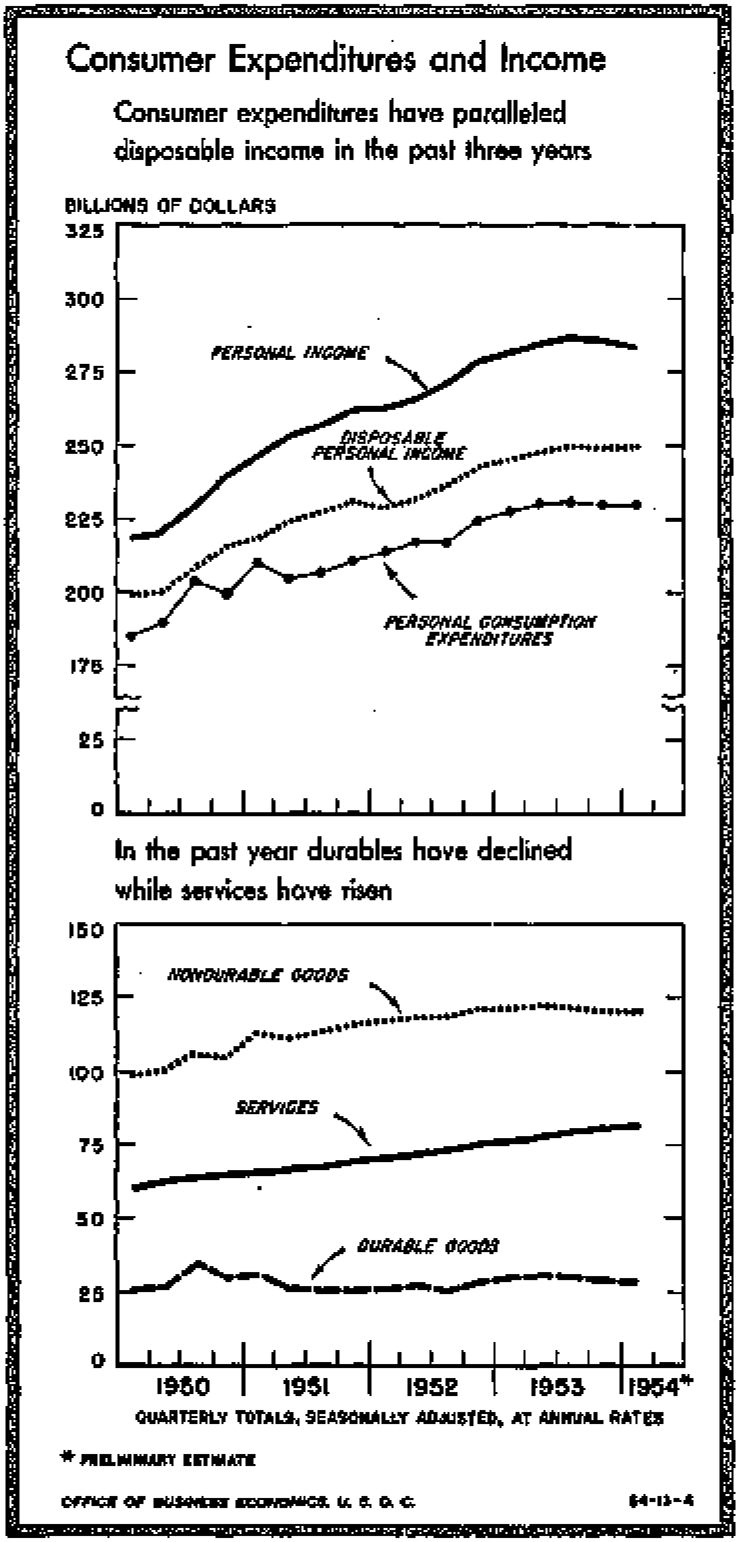
In 1953, consumer expenditures comprised 93 percent of disposable income. The ratio was fairly steady throughout the quarters of that year and preliminary indications are that it was roughly the same in the first quarter of 1954.



The spending-income ratio of the past 3 years compares with an average of about 96 percent in the high employment peacetime years of the past 3 decades. The spending-income ratio was high in the 1947–50 period ranging from 94 percent to 98 percent. This was associated with the special catching-up influences following World War II, as consumers bought goods unavailable or in short supply during the war. As these influences diminished in force in the subsequent period, the spending-income ratio declined.

Consumers' taking of total output

Another way of appraising the position of consumption is to consider it in relation to total output. Although total personal consumption expenditures were at a peak in 1953, their proportion to gross national product was quite low—63 percent. This compares with 69 percent in 1948, 71 percent in 1940, and 76 percent in 1929. In fact, in the past three decades only in the war years 1942–45 has the consumer portion of total sales been lower than in the Korean period.

This ratio in the past 3 years is a reflection of a shift in the use of resources with more going to the government military program and less to private buying. The Federal government, as it stepped up the defense program, increased its share of total output from 8 percent in 1950 to 16 percent in 1953. This was accompanied by a reduction in the proportion of personal consumption expenditures to gross national product from 68 percent in 1950 to 63 percent in 1953, though consumption increased over this period. The proportion of investment to total product declined moderately from 1950 to 1953.

The expansion in Federal government purchases was accompanied by an increase in personal tax rates which resulted in a much smaller increase in disposable personal income from 1950 to 1953 than in personal income. Thus, as the following table shows, the decline from 1950 to 1953 in the ratio of consumption to personal income—namely 5 percentage points—was the same as the drop in the proportion of consumption to gross national product.

This compares with a reduction of less than 2 percentage points in the ratio of consumption to disposable income, which decline accounted for an increase in the saving ratio.

When these ratios for 1953 are compared with 1929, the shift is even more pronounced—the ratios of consumption to gross national product and personal income declined by almost the same amount—about 12 percentage points each—whereas the ratio of consumption to disposable income dropped by less than 3 percentage points.

This shift simply reflects the greater importance of government requirements now than a quarter of a century ago, a difference accounted for by defense needs since the growth of other government services has been in line over this period with the earlier trend. A reduction in government needs, accompanied by a cut in personal taxes, would make possible a shift in resources to personal consumption and a rise in the proportion of the consumer's share of the national product.

The shift in resource use may be viewed in terms of the long-run trend of the three major components of national product—consumer purchases, investment, and government purchases. In the past 50 years, real personal consumption expenditures have shown a persistent long-term growth averaging 2.7 percent per year, exclusive of the depression years of the thirties and war periods.

Fluctuations around this growth trend have been much less pronounced than the swings around the long-term trend of investment and government purchases—in other words consumption has been more stable than the other two. Real investment has shown wide fluctuations about a secular growth trend which has averaged a little more than 3 percent per year. Government purchases of goods and services, in real terms, including the Federal and State and local governments, have for obvious reasons shown the most pronounced swings in war and defense periods. Aside from such periods, however, these purchases have tended upward at an average rate of about 4 percent per year. The trends of these three major sectors have combined in a long-term growth of the nation's output at a rate averaging 3 percent per year.

Between 1950 and 1953 real personal consumption expenditures increased 6 percent. This was a somewhat slower rate than that indicated by the secular growth, but even with the rapid expansion of military needs during this period we were able to expand real per capita purchases of goods and services by a moderate amount. Real investment, which was at an exceptionally high rate in 1950 rose further in 1951

Table 2.—Comparison of Personal Consumption Expenditures and Total Output and Income

[Percent]

	Personal consumption expenditures to—		
	Gross national product	Personal income	Disposable income
1929	75.9	92.6	95.6
1940	71.1	92.1	95.1
1944	52.2	57.3	75.9
1948	68.7	84.9	94.4
1950	67.8	85.8	94.5
1951	63.1	81.8	92.5
1952	62.7	80.9	92.8
1953	62.6	80.8	92.7

Source: U. S. Department of Commerce, Office of Business Economics.

to meet government and other needs, and subsequently declined in relation to total output. Government purchases in real terms, on the other hand, increased by four-fifths.

The buying dollar

Some pronounced changes in the pattern of consumer buying of different goods and services have been evident in the past several years. As the chart indicates, consumers in 1953 used 35 cents out of each dollar spent for food, alcoholic beverages, and tobacco—a proportion which was considerably above prewar years; they spent 9 cents on clothing and shoes—below that in the earlier postwar years and in the

Table 3.—Personal Consumption Expenditures as a Percentage of Disposable Personal Income

[Percent]

	1929	1941	1948	1952	1953
Personal disposable income	100.0	100.0	100.0	100.0	100.0
Total personal consumption expenditures	95.6	89.6	94.4	92.8	92.7
Durables	11.4	10.7	12.1	11.4	12.3
Nondurables	45.7	47.8	53.6	50.6	48.9
Services	38.4	31.0	28.7	30.9	31.6
Total food, tobacco, clothing and shelter	60.9	49.1	53.3	52.1	50.9
Food (including alcoholic beverages and tobacco)	35.9	28.8	33.9	33.1	32.0
Clothing and shoes	11.2	9.0	10.7	8.8	8.4
Housing	13.8	10.8	8.7	10.3	10.4
Autos and parts	3.9	3.8	4.0	4.4	5.6
Furniture and house furnishings	5.6	5.2	6.1	5.1	5.0
Other goods and services	25.3	31.6	31.0	32.7	31.5

Source: U. S. Department of Commerce, Office of Business Economics.

prewar period; they spent 11.5 cents on housing, a larger proportion than in 1948, but smaller than in the prewar period. It is interesting to note that the proportion spent on the combined categories of food, beverages and tobacco, clothing, and shelter has been fairly stable in the past 25 years, exclusive of the war period—averaging around 55 cents out of each dollar spent.

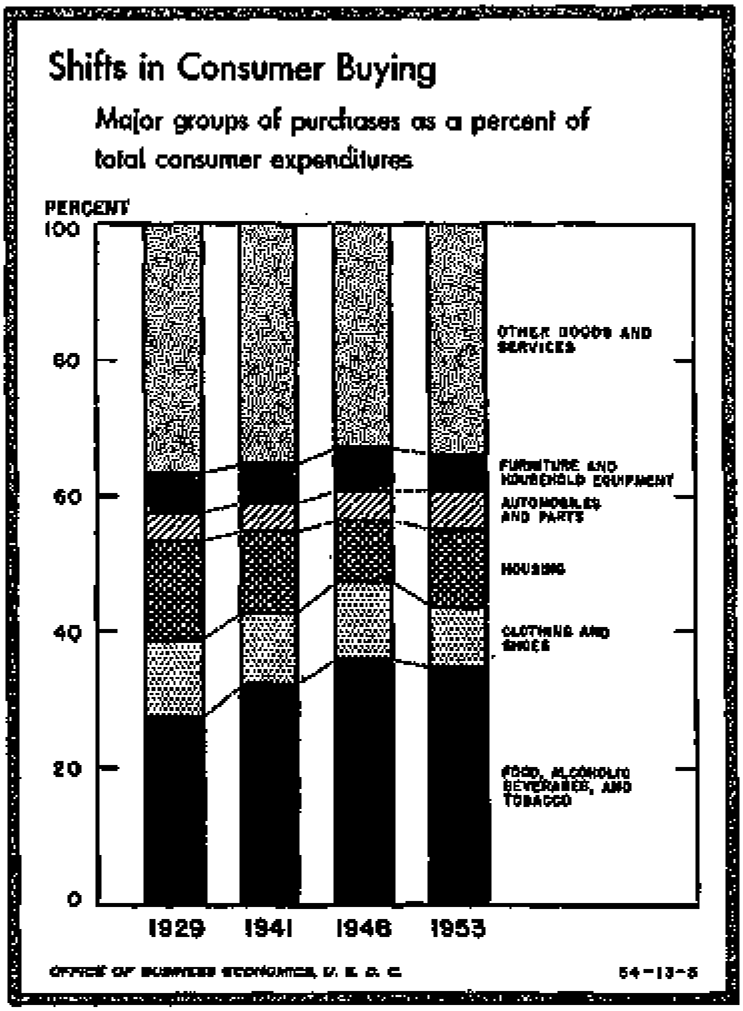
Some shift has also been evident from prewar in the proportion going for autos and parts—6 cents out of each expenditure dollar in 1953, compared with 4 cents in 1929 and 1941. The proportion spent for the remaining goods and services as a group has been fairly constant since 1941, although smaller than in 1929. The detailed composition of this heterogeneous grouping has, of course, changed markedly.

Some of the changes noted have resulted from the fact that consumers tend to spend proportionately more on certain goods and services as income rises. This is the case, for example, for autos and parts and to a lesser extent for some major types of consumer durables.

Similar shifts are evident in considering the ratios of consumption by major categories to disposable personal income. The following table shows these ratios for specified periods.

Consumption-income relations

Expenditure-income relationships are useful in furnishing guides to the current patterns. Significant shifts have at times occurred because of special factors, and as a consequence, simple relationships, such as ratios or linear regressions, will not account for all of the changes. Judgment



must be used in selecting those years which are not dominated by special and temporary influences. Also, the results have to be weighed with care.

The chart on page 9 shows the pattern of consumption in relation to disposable personal income for the period

by Loughlin F. McHugh ☆

Financing Corporate Business

TOTAL corporate uses of funds last year amounted to approximately $30 billion, about the same as in 1952. For the year 1953 as a whole, both fixed capital investment and inventory requirements were higher than in 1952, the later demand being confined to the first three quarters of the year. Inventories were lowered in the latter part of 1953 and this liquidation was carried over to the early months of this year.

Corporations increased their liquid asset holdings by $2 billion in 1953, a larger addition than occurred in 1952. Most of last year's gain was in U. S. Government securities, although some further additions were made to bank deposits.

Offsetting the higher requirements in 1953 than in 1952 for fixed assets, inventories, and cash was the change in customer financing needs. In 1952, corporate receivables increased $6 billion—continuing the rapid rise which had begun in 1950. Receivables were unchanged in 1953, the higher consumer debt to corporations being offset by reductions in other accounts.

Higher outlays for fixed assets

Corporate expenditures on plant and equipment in 1953 amounted to $24 billion, or about four-fifths of total requirements (table 1). This was $1½ billion, or 7 percent, more than was spent by corporations for facilities expansion in 1952.

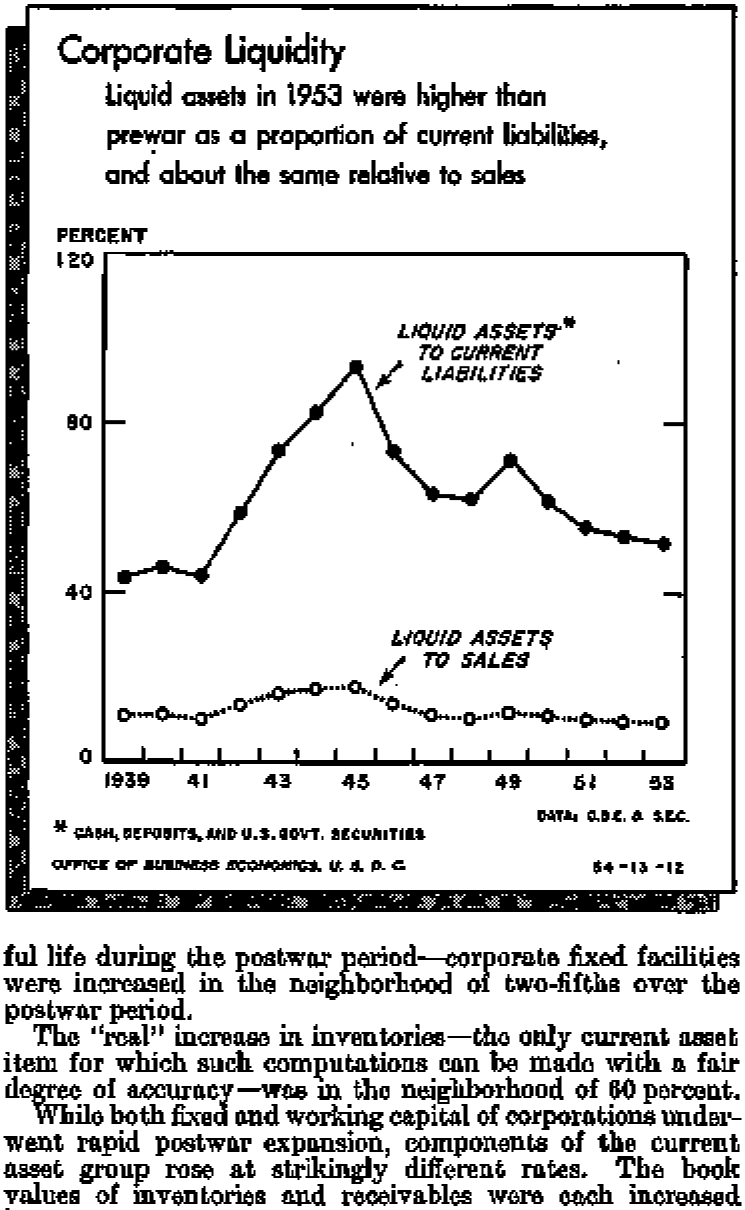
Plant and equipment outlays are scheduled at high rates through 1954, the annual plant and equipment survey showing a total about 4 percent below a year ago and higher than in 1952.[1] Outlays are being reduced in some corporate sectors, notably in manufacturing and railroading. On the other hand, public utility and communication corporations plan to maintain their high outlays for production facilities.

Postwar asset expansion program

Table 2 shows the value of major asset and liability items in the balance sheet of corporations as of the end of 1945, and the cumulative sources and uses of corporate funds since that time. These figures are indicative of the huge postwar capital expansion programs of corporate business. In interpreting the data, however, a few special considerations should be noted.

The 1945 book value of fixed capital was lower than the replacement cost of the facilities then in use, largely because of the lower prices typically prevailing when the facilities were acquired. The gross additions to plant and equipment in the postwar period were, moreover, made at prices substantially above those prevailing in 1945.

Rough allowance for these factors suggests that the "real" fixed asset purchases by corporations in the postwar period represented almost 60 percent of the physical volume of the properties in existence at the end of the war. Considering the expansion on a net basis—that is after allowance for replacement of facilities which reached the end of their useful life during the postwar period—corporate fixed facilities were increased in the neighborhood of two-fifths over the postwar period.



The "real" increase in inventories—the only current asset item for which such computations can be made with a fair degree of accuracy—was in the neighborhood of 60 percent.

While both fixed and working capital of corporations underwent rapid postwar expansion, components of the current asset group rose at strikingly different rates. The book values of inventories and receivables were each increased by more than one and two-thirds. Liquid assets—cash and U. S. Government security holdings—rose by less than one-fourth.

1. "Investment Programs and Sales Expectations in 1954," SURVEY OF CURRENT BUSINESS, March 1954.

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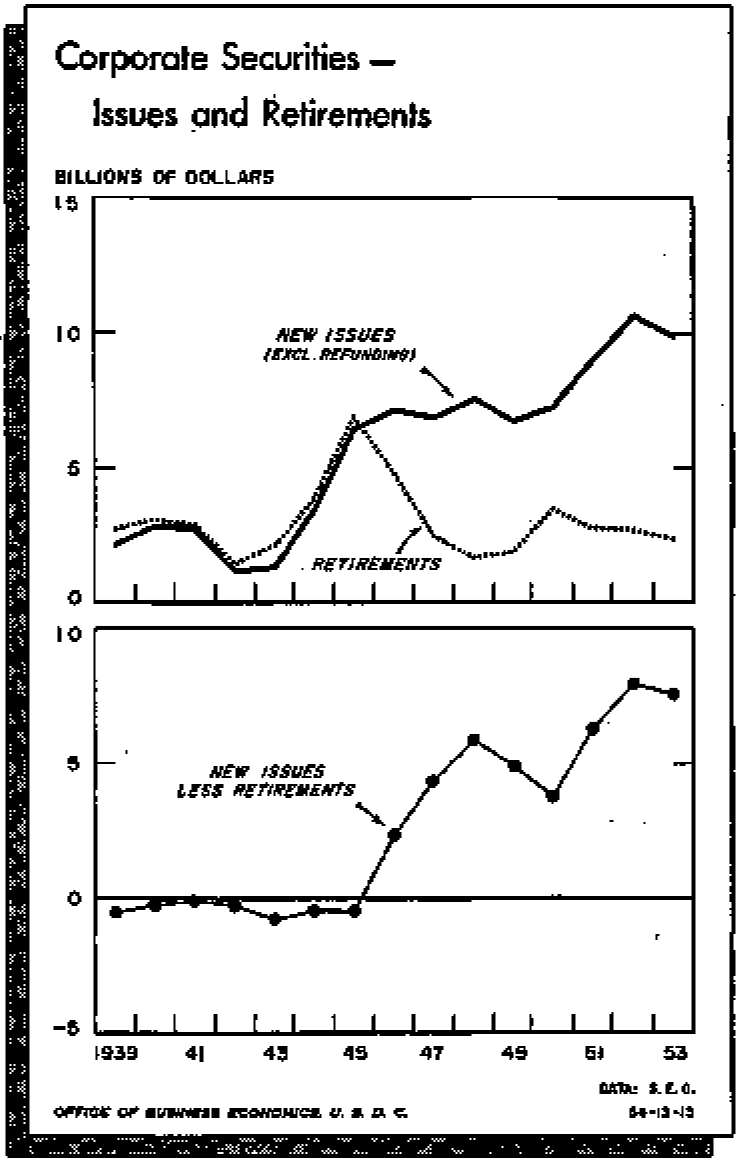
These differential relative changes are, of course, explainable in the light of wartime conditions. Inventory and customer credit expansion was greatly restricted during the war years as a result of direct governmental restrictions, lowered credit needs of both business and consumers in the environment of a sharply reduced supply of durable goods,



and by Government financing of war business. These conditions gave rise to an unusually large accumulation of liquid resources by corporations, and during the postwar period these assets were an important supplement to internally generated funds in enabling corporations to replenish inventories, expand customer credit and finance capital expansion programs without impairment of their fiscal position.

Current liquidity position favorable

Although "cash" assets have undergone a much smaller postwar net expansion than other assets, the current position of corporations appears to be relatively favorable by any past standards. Cash and U. S. Government security holdings of corporations as a whole at the end of 1953 were equal to approximately 52 percent of current liabilities. While this proportion has declined each year since 1945, with the exception of 1949, the 1953 ratio was still well above the average ratio of approximately 45 percent in the 1939–41 period.

The volume of liquid asset requirements is also related to the level of activity, since as payrolls and materials purchases change, the volume of cash needed to meet current outlays changes in the same direction—although not necessarily to the same relative degree. The lower line in the chart showing the relation of liquid assets to corporate sales is indicative of the relative sufficiency of "cash" assets for such transactions purposes. This ratio, too, is down from the wartime peak, but still as high as prewar at the end of 1953.

While the overall liquidity picture is relatively favorable, there may be, and probably are, substantial variations among different parts of the business community. A recent SURVEY analysis of changes in long-term liquidity between the late twenties and early fifties pointed out that relatively stable overall trends in liquidity were in part the result of declines in liquidity by corporations which were highly liquid in the earlier period and offsetting increases in liquidity of other groups which were relatively less liquid in the earlier period.[2] It was felt at that time that, by and large, data for most of the corporations studied indicated generally adequate liquidity. Corporations are now closer to the point of balance between liquid asset ownership and requirements than they have been in the last 15 years, but liquidity conditions prevailing at the end of 1953 were not generally a determining independent influence on corporate activity.

Financing of Requirements

Funds for corporate capital programs in recent years have been derived from both operations and outside capital sources (table 1). Retained earnings last year amounted to $10 billion, approximately $1 billion more than in 1952. The proportion of earnings paid out in dividends has remained low throughout the postwar period in comparison with prewar practice. The average for the 1946–53 period was 42 percent. This compares with proportions of 60 percent in the 1939–41 period and almost 70 percent in 1929.

Depreciation charges in 1953 for replacement of fixed capital consumed in current production amounted to $12 billion. With continuing expansion of new plant, this was almost $2 billion more than in the preceding year. These two sources—retained earnings and depreciation—were equivalent to two-thirds of the total funds utilized in the last 2 years, a slightly larger proportion than in the preceding years of the postwar period.

The recent financing done through gross corporate savings did not differ greatly from that of the immediate prewar period. The proportion of internal funds was somewhat larger than the 1952–53 experience in 1939, about the same in 1940 and smaller in 1941. In 1941, the economy was rapidly adjusting to defense requirements, working capital needs were rising and there was, in consequence, an expanded need for short-term funds. During the defense buildup in 1950 and 1951, the ratio of internal funds to the total was also relatively low.

Although plant and equipment outlays declined during the mild recession of 1949, the major adjustments in capital demand and supply in that period were related to short-term working capital. There was practically no increase in total current assets over the course of that year as corporations increased their liquid asset holdings in the process of

2. "Financial Experience of Large and Medium Size Manufacturing Firms, 1927–1951," SURVEY, November 1952.

reducing inventories. Current liabilities were cut back sharply in 1949 as bank loans were repaid and Federal tax liabilities declined. These current liability changes were offset by continuing expansion of external long-term financing so that the net demand for capital funds in that year was about equal to the total available from internal sources.

Corporate sales and retained profits in 1953 tended upward through midsummer in response to rising activity. Thereafter, as sales eased, undistributed profits declined more sharply than earnings as dividends were maintained. By year-end the reduction in profits lowered substantially the availability of funds from this source. The elimination of the excess profits tax on January 1 bolstered after-tax profits but retention of earnings so far this year has provided a smaller flow of funds for financing than a year ago.

Table 1.—Sources and Uses of Corporate Funds, 1946–53[1]

[Billions of dollars]

	1946	1947	1948	1949	1950	1951	1952	1953[2]
Total uses	23.2	32.7	28.3	16.5	46.0	40.7	31.0	30.5
Plant and equipment	12.5	17.0	18.8	16.3	17.0	21.7	22.4	24.0
Increase in other assets-total	10.7	15.7	9.5	.2	29.0	19.0	8.6	6.5
Inventories	11.2	7.1	4.2	−3.6	9.9	10.2	1.6	3.5
Manufacturing	6.2	4.3	2.7	−3.6	5.8	8.6	1.4	2.6
Retail	2.3	1.2	.7	−.2	2.0	.5	.2	.6
Wholesale	2.0	.9	.5	−.4	2.0	.8	.2	.3
Other	.7	.7	.3	−.4	.0	.6	−.1	.2
Receivables	4.5	7.6	4.1	.6	13.8	5.2	6.0	(4)
Consumer	1.1	1.5	1.3	1.4	1.0	.5	1.8	1.5
U. S. Government	−2.0	−.2	.2	.3	.2	1.6	.1	(4)
Other	5.7	6.3	2.6	−1.0	12.0	3.1	4.1	−1.5
Cash, deposits, and U. S. Government securities	−4.7	1.0	1.0	3.2	4.5	3.0	.3	2.0
Cash and deposits	1.1	2.2	.3	1.2	1.6	2.2	.6	.5
U. S. Government securities	−5.8	−1.2	.7	2.0	2.0	.8	−.3	1.5
Other assets	−.0	(3)	.2	(3)	.4	.8	.7	1.0
Total sources	22.3	33.0	29.4	15.8	44.9	41.0	31.7	31.4
Retained profits[4]	7.0	11.0	12.8	8.0	18.0	10.2	8.8	9.6
Depreciation	4.2	5.3	6.3	7.3	7.9	8.7	10.0	11.6
Net new issues—total	2.4	4.4	5.9	4.9	3.7	6.3	7.9	7.6
Stocks	1.3	1.4	1.2	1.6	1.7	2.7	3.0	2.4
Bonds	1.1	3.0	4.7	3.3	2.0	3.6	4.9	5.2
Increase in other liabilities	8.1	11.7	4.4	−4.3	16.0	15.6	5.0	2.2
Mortgage loans	.9	.5	.7	.7	.0	.5	.8	.6
Bank loans	3.2	2.6	1.2	−2.9	1.5	4.4	2.4	−.4
Short	2.2	1.4	.6	−1.7	2.1	3.9	1.7	(†)
Long	1.0	1.2	.6	−1.2	−.6	.5	.7	(†)
Trade payables	3.7	4.6	1.3	−.3	8.5	4.2	3.6	−1.0
U. S. Government	−.8	(3)	(3)	(3)	.3	.9	.9	(†)
Other	4.5	4.6	1.3	−.3	8.2	3.3	2.7	(†)
Federal income tax liabilities	−1.6	2.3	.6	−2.3	7.2	5.1	−3.1	2.2
Other liabilities	2.2	1.5	.4	.5	1.6	1.3	1.4	.6
Discrepancy (uses less sources)	.9	−.3	−1.1	.7	1.1	−.3	−.7	−.9

1. Excluding banks and insurance companies. Data have been revised to Internal Revenue Service statistics for the years 1946 through 1950.
2. Preliminary, and based on incomplete data.
3. Less than 50 million dollars.
4. Included in other receivables.
5. Including depletion.
†Not available.

Source: U. S. Department of Commerce based on Securities and Exchange Commission and other financial data.

On the other hand, depreciation charges on a continually expanding asset base are larger. This is due in part also to the influence of accelerated tax-amortization of defense facilities.

Under present legislation, new fixed capital programs considered necessary for national defense are eligible to be written off at an accelerated rate. Currently $30 billion of certificates of necessity have been issued; and of this total approximately $18 billion may, as projects are completed, be written off in a 5-year period rather than over a longer period as required under normal tax provisions. It is estimated that in 1953, roughly $1 billion of rapid amortization allowances were charged on facilities compared with one-half billion dollars in 1952. Under present completion schedules, amortization allowances will exceed $2 billion in 1954 and, under a $30 billion certificate program, may grow to a rate of $3½ billion in late 1955.

New issues market

Sale of new securities in the long-term capital markets continued to be an important source of financing in 1953, with the net inflow of funds amounting to $7.6 billion (see chart on p. 14) This was about $300 million less than was raised through security sales in 1952—the record year for such financing—but it was larger by far than any other year. Some reduction in net new issues occurred in the first quarter of 1954.

Bond issues continue to be the predominant method of external financing, with the net inflow of funds in 1953 constituting a new record of $5.2 billion. Actual sales of bonds and other long-term debt instruments were somewhat lower than in 1952 but retirements of outstanding issues were down by a greater amount.

Stock issues were less in amount than in 1951 or 1952, but new equity funds still remained substantially higher than in any earlier postwar year and at least equal to any prewar period. In the "bull" market of the twenties, total stock sales were much higher on a gross basis, but a substantial portion of such sales involved changes in existing forms of equity securities rather than raising of net new funds.

Table 2.—Postwar Corporate Investment and Its Financing[1]

[Billions of dollars]

	Book value outstanding end of 1945	Uses and sources of funds
Assets		
Gross fixed assets[2]	138	180
Selected current assets	95	96
Inventories	24	44
Receivables	28	42
Liquid assets[3]	43	10
Liabilities		
Long-term liabilities and capital	237	195
Capital stock and capital reserves	140	97
Depreciation reserves	55	62
Long-term debt	42	36
Selected short-term liabilities	36	44
Payables (supplier)	20	23
Bank loans	6	10
Federal tax liabilities	10	11

1. Excluding banks and insurance companies.
2. Exclusive of land and before depreciation.
3. Cash, deposits and U. S. Government securities.

Source: U. S. Department of Commerce, Office of Business Economics and Securities and Exchange Commission.

Bank loan expansion halted

From 1949 through mid-1953, bank credit was an important source of corporate financing. Peak borrowing occurred in the 18 months following the outbreak of Korean hostilities when corporations added to their bank debt at an annual rate of $4 billion. This expansion was moderated in 1952 and in early 1953 and, on a seasonally adjusted basis, rose at a rate of about $2 billion a year during the period. The rise was finally halted in the summer of 1953. There was an absence of the normal seasonal pickup in bank borrowing last fall and winter and at the end of the year corporate loan balances at commercial banks were lower than a year earlier. The seasonally adjusted decline in bank loans that set in late in 1953 continued in the first quarter of 1954.

Federal tax accruals and payments

Financing of short-term corporate capital requirements in the postwar period has been significantly affected by the changes in Federal profits taxes accrued and paid by corporations. With tax rates unchanged from 1952 to 1953 and profits higher, in the latter year tax accruals exceeded payments by $2 billion, thus providing a temporary source of financing to corporate business. In 1952, in contrast, tax payments exceeded accruals by about $3 billion, and hence the excess had to be paid from other sources of funds.

While such variations can thus be sharp from one year to the next, over the longer term this liability account does not bulk so large in the total picture. Over the whole postwar period, the net increase in corporate tax liabilities to the Federal government amounted to about $11 billion, or about 4 percent of the total financing requirements.

Table 3.—Net New Security Issues, by Industry

[Millions of dollars]

	1948	1949	1950	1951	1952	1953
Total new issues	5,886	4,866	3,724	6,277	7,927	7,561
Bonds and notes	4,654	3,294	2,004	3,577	4,940	5,186
Stocks	1,232	1,572	1,720	2,700	2,987	2,376
Manufacturing—total	1,853	810	193	2,344	2,567	1,532
Bonds and notes	1,513	676	96	1,696	2,041	1,450
Stocks	340	134	97	648	526	82
Electric, gas and water—total	1,857	1,818	1,728	2,152	2,326	2,737
Bonds and notes	1,555	1,054	1,029	1,398	1,483	1,661
Stocks	302	764	699	754	843	1,076
Railroad—total	275	178	164	−70	−14	−39
Bonds and notes	287	178	164	−81	2	−35
Stocks	−12	0	0	11	−16	−4
Other transportation—total	76	205	146	61	324	90
Bonds and notes	73	210	146	75	282	96
Stocks	3	−5	0	−14	42	−6
Communication—total	1,036	843	421	778	964	1,010
Bonds and notes	678	493	−33	112	147	424
Stocks	358	350	454	666	817	586
Financial and real estate—total	542	780	806	747	902	1,825
Bonds and notes	311	420	375	154	235	1,226
Stocks	231	360	431	593	667	599
Commercial and miscellaneous—total	236	163	276	280	266	292
Bonds and notes	230	186	235	237	160	248
Stocks	6	−23	41	43	106	44

Source: Securities and Exchange Commission.

Federal taxes being currently accrued are down significantly from the 1953 average, reflecting in part lower corporate profits and in part the elimination of the excess profits tax at the end of 1953. With corporations required to pay approximately 90 percent of the higher tax liabilities accrued in 1953 in the first half of the current tax year, payments are at present greatly in excess of taxes being currently accrued, a factor which may involve temporary financial problems for some firms.

Industry differences

There were noteworthy differences among the major industries in the amount and composition of demand for capital funds. As in other years, manufacturing corporations predominated, with total requirements of approximately $15 billion or about half of the total for all corporations. These concerns also contributed a major share of the increased fixed asset and inventory demand from 1952 to 1953. Manufacturers accounted for about one-third of the $1½ billion increase in capital outlays, and for almost three-fourths of the increased holding of corporate inventories from 1952 to 1953.

Public utilities increased their fixed capital outlays by $600 million or 15 percent from 1952 to 1953—the largest relative and absolute amount of any major sector of corporate business. 1953 capital expenditures by the railroads, on the other hand, were little changed from 1952. The rails expect to sizably reduce their capital expenditures in 1954.

As has been generally the case in recent years, railroads relied most heavily on funds from operations. These accounted for 80 percent of their funds used, compared with a proportion of two-thirds for manufacturing and for all corporations. The utilities and communication groups, on the other hand, drew as usual upon external funds, as gross savings in the form of retained profits and depreciation accounted for less than one-third of their requirements.

As indicated, bank borrowing was of lessened importance in financing new capital requirements in 1953. Bank credit to manufacturers was actually lower at the end of 1953 than a year earlier. Utilities continued to add to their outstanding bank debt but at a reduced rate from 1952, and changes among other groups were relatively small. Bank loans were reduced at an increasing rate in the opening months of 1954 with loan liquidation programs fairly widespread throughout industry.

Large utility flotations

Table 3 presents information on the industrial composition and type of financing in long-term capital markets since 1948. The electric and gas utilities were the largest users of such funds in 1953, and the $2.7 billion of money raised by them through net sales of stocks and bonds accounted for over one-third of total net new issues. This was one-sixth more than net flotations in 1952. In contrast, manufacturers cut their net proceeds from security issues almost in half from the record rate of the preceding year.

Table 4.—Corporate Bond and Stock Yields [1]

[Percent per annum]

Average for period	Bond yields			Common stock					
				Dividend yields			Earnings—price ratio		
	Industrial	Public utilities	Railroads	Industrial	Public utilities	Railroads	Industrial	Public utilities	Railroads
1924–26	5.0	5.3	5.5	5.3	5.8	5.0	9.8	8.7	11.0
1929	5.3	5.1	5.2	3.9	2.1	4.4	6.1	3.8	8.5
1940–41	3.0	3.2	4.1	5.8	7.0	5.9	9.2	7.9	17.6
1948	2.9	3.0	3.3	5.6	6.8	6.0	14.8	8.1	18.1
1950	2.7	2.8	3.1	6.6	5.7	6.5	14.0	8.4	21.9
1951	2.9	3.1	3.3	6.3	5.8	6.3	10.4	7.5	10.4
1952	3.0	3.2	3.4	5.6	5.4	5.9	9.5	7.4	16.0
1953	3.3	3.4	3.0	5.5	5.3	6.5	10.1	7.4	17.0
1953: I	3.1	3.3	3.4	5.3	5.1	6.8	9.2	7.1	13.2
II	3.4	3.6	3.6	5.6	5.4	6.2	10.3	7.0	17.1
III	3.4	3.6	3.6	5.7	5.5	6.9	10.0	7.7	18.7
IV	3.3	3.4	3.5	5.6	5.3	7.1	10.0	7.1	19.5
1954: I (estimated)	3.1	3.2	3.4	5.2	5.1	6.0	(†)	(†)	(†)

1. Moody's series. † Not available.

Source: Moody's Investors Service except for common stock data prior to 1929 which were extrapolated on the basis of the earnings-price ratio and dividend yield series shown in Common Stock Indexes, Cowles Commission Monograph No. 3.

The largest relative expansion in funds was the $1.8 billion raised in the new issues markets in 1953 by the financial and real estate groups. This was double the volume of such financing in 1952 and the increase was entirely confined to

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Other American Republics received $4 million on balance in loans and other long-term credits during 1953.

Technical assistance to these countries was about the same in the past 2 years. Bolivia received three-quarters of a million dollars worth of wheat under the Emergency Famine Relief Act. The original program for $5 million in such shipments to Bolivia was raised to $8 million on March 15, 1954.

Multilateral programs continue

The annual contributions to the programs for technical assistance administered by the United Nations and the Organization of American States were not changed in 1953, totaling $13 million. Payments of $7 million to the Intergovernmental Committee for European Migration provided that international organization with funds to continue the program of assisting Europe by resettling European surplus population in other areas where its skills would be beneficial.

In November the Government disbursed another contribution of $10 million to the International Children's Emergency Fund, bringing total contributions to this program since 1947 to $97 million.

The United Nations made the scheduled $1½-million repayment on the $65-million loan for construction of the headquarters building in New York.

Financing Corporate Business

(Continued from page 16)

debt issues. For the most part it reflected the heavy volume of business done by nonbank concerns engaged in extending credit on durable consumer goods.

Proceeds from the sale of stock in 1953 flowed almost entirely to three groups—utilities, communications, and finance. In the last case, stock sales represented largely flotations by investment companies; in the case of communications, a substantial volume of new stock sales represented the conversion of debt issues.

The volatility of the manufacturing industry's flotations in the capital markets is strikingly shown in the table. The reduced capital demand in 1949 and the intensified demand in 1951 and 1952 were quickly reflected in the new issues market. In the 1949–50 period, manufacturers were practically out of the new issues market, and only after a lag of some months did activity pick up in response to the new and higher defense requirements following the outbreak of Korean hostilities.

Cost of financing

Although the cost of borrowing in 1953 was on the average higher than in any year since prewar, rates were lowered in the latter part of the year, and these trends have been continued into current months (table 4). Largely as a result of the favorable terms of postwar financing, interest payments continue to be relatively low in historical perspective. These costs represented slightly more than 9 percent of earnings available for interest (i. e., profits before taxes and interest) in 1953, up fractionally from 1952, but far below the prewar ratio of 20 percent in 1940 or the 30 percent ratio in 1929.

Common stock earnings-price ratios averaged slightly higher in 1953 relative to 1952 but, as in the case of borrowing costs, were tending downward in the latter part of the year as stock prices firmed while earnings tended downward. Common stock dividend yields remained rather steady through most of 1953, except for the railroad groups where dividends were somewhat higher while share prices did not keep pace with general market averages. Dividend yields were generally lower in the first quarter of this year.

Despite the somewhat reduced cost of equity financing in the current period, the general cost structure, as well as the relatively low volume and cost of corporate debt, continues to favor financing through use of borrowed funds, in view of the interest rates prevailing. It may be noted from table 4, for example, that bond yields are currently less than two-thirds of dividend yields. In the prosperous mid-twenties, interest rates and dividend yields were of the same order of magnitude.

Summary

The unprecedented capital expansion program undertaken by corporations in the postwar period was carried through with relative smoothness. Use of borrowed funds was somewhat more pronounced than in earlier expansions, but this appears to have reflected in part the earlier improvement in debt position and the exceptional postwar working capital needs.

Total long-term funds used in the 1946–53 period amounted to almost $200 billion. Of this sum, half came from retained earnings and stock issues, slightly less than one-third was in the form of depreciation allowances, and one-sixth took the form of long-term debt. The proportion of gross equity to total long-term financing in the postwar period was roughly the same as indicated by the balance sheet of all corporate business at the end of the war—a period when the financial position was rather favorable. At that time the combined balance sheet of corporations reflected the effects of wartime conditions which tended not only to increase the relative importance of equity financing but also to lower the influence of long-term debt in the overall financial structure.